

HOW TO FINANCE A USED CAR



A mini-lesson for:

high school teachers
adult and community educators
students and consumers

This mini-lesson includes learning objectives, background information, an activity, worksheet and sources of additional information.

OBJECTIVES

Learners will:

learn how to comparison shop for credit

identify sources of credit for financing a used vehicle

Shopping For Credit

A used car buyer may know how to find the best models and how to reach a fair price, yet not know how to buy a car on credit. A buyer who walks into a dealership with insufficient information is likely to accept dealer financing and pay top dollar for it. Savvy buyers need to comparison shop for money just as they do for the car itself.

Before going to a dealership or used car lot, buyers should know the range of interest rates from various sources and answers to these questions:

How much will I need to borrow?

What is the maximum monthly payment I can afford?

How many months do I want to borrow the money for?

See our Web Sites:

Applying for Credit http://www.in.gov/dfi/education/applycr.htm	Borrow Smart http://www.in.gov/dfi/education/borrow_smart.htm	Guidelines for Setting Credit Limits http://www.in.gov/dfi/education/MiniLessons/guidelines_for_setting_credit_li.htm
How to Cut the Costs of Credit http://www.in.gov/dfi/education/cutcost.htm	Measuring and Using Your Credit Capacity http://www.in.gov/dfi/education/measuring_and_using_your_credit_.htm	Questions and Answers About Federal Truth in Lending Disclosures http://www.in.gov/dfi/education/questions_and_answers_til.htm
Ready, Set.. Credit http://www.in.gov/dfi/education/Readycr.html	Scoring for Credit http://www.in.gov/dfi/education/crscore.htm	Shopping for Credit http://www.in.gov/dfi/education/shopcr.htm

Comparison Shopping For A Used Car

Since the majority of used cars are financed, comparison shopping for the best finance terms and contract is worth the time and effort and can save you a lot of money. Before signing any finance contract, for your own protection, read it carefully. Make sure you understand every clause of the contract. Also, be sure there are no blank spaces or lines to be filled in later. Do not be afraid to ask questions about clauses that are unclear. You also want to know the creditor's legal rights for situations such as late payment, default or prepayment. Finally, be sure that you can meet your responsibilities defined in the contract.

See our Mini-Lesson on How to Buy a Used Car at
<http://www.in.gov/dfi/education/MiniLessons/usedcar.htm>

See our Web Sites:

Subjects	Web Sites
Car Financing Scams	http://www.in.gov/dfi/education/car_financing_scams.htm
How to Buy a Used Car	http://www.in.gov/dfi/education/BUYUSED.htm
Auto Adds: Low Interest Loans & Other Offers	http://www.in.gov/dfi/education/CarAds.html
Vehicle Repossession	http://www.in.gov/dfi/education/VehRepo.html

Important Financial Terms

Finance managers at the various used car sources are experts in selling money to prospective buyers. By law, the cost of credit is expressed as an annual percentage rate (APR) and the buyer can compare the cost of loans by comparing annual percentage rates. The APR is the standard way of talking about interest rates. The federal Truth In Lending Act requires creditors to clearly disclose all the required cost terms in writing.

The contract must include the APR, the amount financed, the finance charge, the total of payments and the payment schedule. Also required is the total sales price, which is the sum of the total scheduled payments and the down payment. The finance charge is the total cost of the loan including interest, fees, and credit checks. The credit contract shows the buyer how much more it costs to buy on credit than to pay cash.

When you obtain an automobile loan the car becomes collateral, which means that the creditor will hold the title to the car until the loan is paid in full. So if you fail to make your payments, then legally the creditor can repossess the car and sell it.

Used Car Loan Sources

The easiest way to get information about used car loans is to phone various sources. Provide the pertinent information: cost, description of car and the down payment. After you have discussed the loan length and the amount to be borrowed, find out the APR and what the monthly payment on that amount will be. Find out if there are any restrictions on the amount of money the creditor will lend for the car you are interested in. Also, ask about additional fees such as credit checks and the finance charge, which is the total cost of the loan.

The following credit sources should be considered before selecting a used car loan:

Credit Unions usually offer low loan rates, especially for used cars. In addition, credit unions sometimes offer free credit insurance to borrowers as well as low-cost credit disability insurance. Many consumers join to participate in their loan programs.

Banks sometimes give a preferred rate to persons who have checking or savings accounts at the bank. In setting its loan rate a bank will inquire about a consumer's creditworthiness by making a credit check. Another factor affecting the loan rate is the number of months the loan is in effect.

Dealerships are not lending institutions. They borrow the money from their own banks or from local institutions. They may be the most expensive source of car financing but also the most convenient. Sometimes, under special arrangements, they offer loans to young buyers who have no credit history but are employed or to people with poor credit ratings.

NOTE: Sometimes the dealership finance manager will offer to do your paperwork if you're getting a loan from another bank or credit union. For performing this service, the dealership receives payment by the lender who will pass along that cost to the borrower. Handling your own paper work may mean a trip to the lending institution, but it can result in a significant saving.

Finance Companies and small loan companies make a point of providing loans to persons with bad credit or no credit history, but they charge the highest legal interest rates and have exacting requirements for loan security or collateral.

Parents, relatives and friends can be a good source for young buyers. If you borrow money from a relative or friend, it is important to have a written contract that contains the standard information: the total cost, the amount borrowed, length of the loan, interest rate and repayment arrangements. It should be signed, dated and witnessed. Keep

accurate records because the Internal Revenue Service may consider large payments to a minor as a gift for tax purposes.

Some consumers knowingly choose to pay high interest rates for several reasons. Buyers with a checkered credit history may be embarrassed to go to a bank or credit union. They fear being turned down. However, the majority of borrowers who think their credit is poor could qualify for regular loans. Some consumers disregard their own self interest in money matters. They value convenience and the promised "no fuss" policies of dealerships. If you want to get a good deal, you must investigate all the sources of financing and select the deal that best meets your needs.

Using A Cosigner

Sometimes buyers, who are ineligible to sign a loan contract because they are under age, need a cosigner for a used car loan. The cosigning procedure is a big step for both parties. A cosigner is legally required to assume all the obligations of a loan if the borrower does not fulfill the contract. In most states, if the borrower misses one payment, the creditor can collect from the cosigner immediately without contacting the borrower first. Also, the lender is permitted to use all collection methods against the cosigner such as law suits and garnishment of wages. In addition, the amount of the debt may be increased by late charges and attorney fees.

When people cannot make loan payments, they often decide to let the financial institution have the car. The borrower hopes to end all responsibility for the loan. However, when the financial institution repossesses a car, it attempts to sell it and apply the proceeds to pay off the loan. But the sale amount may not be sufficient to cover the balance owed. In that case, the original borrower and the cosigner may receive a deficiency judgment which would force repayment of the difference. All of these events will have an adverse effect on the borrower's credit history and may damage the cosigner's credit record as well. In cases where parents are cosigning for their children, perhaps the peril is not so great, but there is still some risk.

See our Web Site on Co-Signing a Loan at <http://www.in.gov/dfi/education/cosign.htm>.

Getting Preliminary Information From Creditors

The easiest way to get information is to phone the creditor and ask for the loan arranger or car loan department. The loan officer will ask a few basic questions:

How much money is to be borrowed?

How long?

What year is the car?

What is the selling price?

Potential borrowers may be asked questions about employment, income, credit cards and debts. After you have answered the questions, request the following information from the loan officer:

APR

Monthly payment

Restrictions on the loan

Additional fees

Finance charge

The total credit costs depend primarily on three factors: the APR, the amount borrowed and the length of the repayment period. So if you are considering financing through a dealer, make sure you get separate quotes for the car and for the financing. Otherwise, you will not be able to compare the credit costs and terms accurately with other credit sources.

See other our Web Sit **Auto Credit Information** at
http://www.in.gov/dfi/education/ciauto_creditleasing.htm

Links to **Interactive Auto Calculators** at
http://www.in.gov/dfi/education/links_to_interactive_tool_calcul.htm##auto

DISCUSSION QUESTIONS AND TOPICS

1. What three factors influence the cost of financing a car?
2. Would you consider being a cosigner for a friend's used car loan? Why?
3. Why do finance charges vary with different sources of credit?
4. What guidelines would you suggest for financing a used car.
5. Is it necessary for a person who borrows money for a used car from a parent, guardian or relative to have a written contract? Why?

ACTIVITY

Compare the different sources of financing a used car. Decide on a make, year, model and options, and then shop for a used car loan by calling each source. Since the costs of used car loans vary, you should borrow from the lender offering the most favorable loan conditions.

Have your students take our Car and Loans Quiz.

Give students a copy of our Brochures.

CAR AND LOAN QUIZ

1. Most used cars sold by private parties have a one-year warranty.
☐ True
☐ False
2. A service contract is designed to avoid costly repairs as a motor vehicle gets older.
☐ True
☐ False
3. The truth-in-lending law requires that a borrower be informed of the total finance charge.
☐ True
☐ False
4. Bodily-injury liability covers the damage to another person's car for which you were at
☐ True
☐ False
5. Collision insurance covers damage caused to a motor vehicle by vandalism or floods.
☐ True
☐ False
6. The most reliable source for buying a used car is usually:
☐ a rental car company.
☐ a police auction.
☐ a car dealer.
☐ private party sales.
7. (Fill in the blank) warranty refers to the fact that a product will do what it is designed to do.
☐ An extended
☐ An implied
☐ A dealer
☐ An unexpired manufacturer's
8. The truth-in-lending law requires that borrowers be informed of the:
☐ amount financed.
☐ cost of auto insurance.
☐ features of an extended warranty.
☐ reasons a person has been denied credit.
9. The auto insurance coverage for damage to your vehicle as a result of an accident is called:
☐ property damage.
☐ comprehensive.
☐ liability.
☐ collision.
10. Doctor costs for injuries to others resulting from an accident are covered by (fill in the blank) liability.
☐ medical
☐ collision
☐ bodily injury
☐ comprehensive

CAR AND LOAN QUIZ ANSWERS

1. Most used cars sold by private parties have a one-year warranty.
☐ False
2. A service contract is designed to avoid costly repairs as a motor vehicle gets older.
☐ True
3. The truth-in-lending law requires that a borrower be informed of the total finance charge.
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4. Bodily-injury liability covers the damage to another person's car for which you were at fault.
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☐ a car dealer.
7. (Fill in the blank) warranty refers to the fact that a product will do what it is designed to do.
☐ An implied
8. The truth-in-lending law requires that borrowers be informed of the:
☐ amount financed.
9. The auto insurance coverage for damage to your vehicle as a result of an accident is called:
☐ collision.
10. Doctor costs for injuries to others resulting from an accident are covered by (fill in the blank) liability.
☐ bodily injury

SOURCES OF ADDITIONAL INFORMATION

Books

Don't Get Taken Every Time: The Insider's Guide to Buying or Leasing Your Next Car or Truck by Remar Sutton. 3rd revised edition. New York: Penguin Books. (1994).

The Insider's Guide To Buying A New Or Used Car by Burke and Stephanie Leon. Cincinnati: Betterway Books. (1993).

Pamphlets

Facts For Consumers: Cosigning a Loan
Facts For Consumers: Vehicle Repossession

Available free from:
Federal Trade Commission
Public Reference
Room 130
Washington, DC 20580
<http://www.ftc.gov>

Videos

Buying A Car With Credit. Credit Education for Limited English Proficient Consumers. 17 minutes. 1994. \$25.60. VHS Video with lesson plan and brochures. Available from: Department of Human Environments

Utah Sate University
Logan, Utah 84322-2910
Telephone: (801) 797-1594

Financial Freeway. 20 minutes. 1991. \$25.00. Teaching guide and VHS video with tests, problems, case studies, reference list and "Financial Freeway Road Rally" game.

Available from:
University of Nevada Cooperative Extension
ST&P Building, Suite 207
953 East Sahara Avenue
Las Vegas, NV 89104
Telephone: (702) 222-3130

Inside Credit. Three Stories. 26 minutes. 1991. VHS video.

Available from:
AFSA Consumer Credit Education Foundation
919 18th Street NW
Washington, DC 20006

Internet

Automobile Browsing at <http://www.carstuff.com/>

Edmund's **Comprehensive Guide to Buying (and selling) a Used Car** at <http://www.edmunds.com/>

Car Loan Calculators at <http://www.cuna.org/data/consumer/advice/calcs/calculators.html>

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- ◆ What is the maximum monthly payment I can afford?
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COMPARISON SHOPPING FOR A USED CAR

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IMPORTANT FINANCIAL TERMS

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NOTE: Sometimes the dealership finance manager will offer to do your paperwork if you are getting a loan from another bank or credit union. For performing this service, the dealership receives payment by the lender who will pass

along that cost to the borrower. Handling your own paper work may mean a trip to the lending institution, but it can result in a significant saving.

Finance Companies... and small loan companies make a point of providing loans to persons with bad credit or no credit history, but they charge the highest legal interest rates and have exacting requirements for loan security or collateral.

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Some consumers knowingly choose to pay high interest rates for several reasons. Buyers with a checkered credit history may be embarrassed to go to a bank or credit union. They fear being turned down. However, the majority of borrowers who think their credit is poor could qualify for regular loans. Some consumers disregard their own self interest in money matters. They value convenience and the promised "no fuss" policies of dealerships. If you want to get a good deal, you must investigate all the sources of financing and select the deal that best meets your needs.

USING A COSIGNER

Sometimes buyers, who are ineligible to sign a loan contract because they are under age, need a cosigner for a used car loan. The cosigning procedure is a big step for both parties. A cosigner is legally required to assume all the obligations of a loan if the borrower does not fulfill the contract. In most states, if the borrower misses one payment, the creditor can collect from the cosigner immediately without contacting the borrower first. Also, the lender is permitted to use all collection methods against the cosigner such as law suits and garnishment of wages. In addition, the amount of the debt may be increased by late charges and attorney fees.

When people cannot make loan payments, they often decide to let the financial institution have the car. The borrower hopes to end all responsibility for the loan. However, when the financial institution repossesses a car, it attempts to sell it and apply the proceeds to pay off the loan. But the sale amount may not be sufficient to cover the balance owed. In

that case, if the cash selling price of a car financed in Indiana was over \$3,100; the original borrower and the cosigner may receive a deficiency judgment which would force repayment of the difference.

All of these events will have an adverse effect on the borrower's credit history and may damage the cosigner's credit record as well. In cases where parents are cosigning for their children, perhaps the peril is not so great, but there is still some risk.

GETTING PRELIMINARY INFORMATION FROM CREDITORS

The easiest way to get information is to phone the creditor and ask for the loan arranger or car loan department. The loan officer will ask a few basic questions:

- ◆ How much money is to be borrowed?
- ◆ How long?
- ◆ What year is the car?
- ◆ What is the selling price?

Potential borrowers may be asked questions about employment, income, credit cards, and debts. After you have answered the questions, request the following information from the loan officer:

- ◆ APR
- ◆ Monthly payment
- ◆ Restrictions on the loan
- ◆ Additional fees
- ◆ Finance charge

The total credit costs depend primarily on three factors: the APR, the amount borrowed, and the length of the repayment period. So if you are considering financing through a dealer, make sure you get separate quotes for the car and for the financing. Otherwise, you will not be able to compare the credit costs and terms accurately with other credit sources.

The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- ◆ Answers to Credit Problems
- ◆ Applying for Credit
- ◆ At Home Shopping Rights
- ◆ Bankruptcy Facts
- ◆ Buried in Debt
- ◆ Car Financing Scams
- ◆ Charge Card Fraud
- ◆ Choosing A Credit Card
- ◆ Co-Signing
- ◆ Credit and Divorce
- ◆ Credit and Older Consumers
- ◆ Deep in Debt?
- ◆ Equal Credit Opportunity
- ◆ Fair Credit Reporting
- ◆ Fair Debt Collection
- ◆ Gold Cards
- ◆ Hang up on Fraud
- ◆ High Rate Mortgages
- ◆ Home Equity Credit Lines
- ◆ How to Avoid Bankruptcy
- ◆ Indiana Uniform Consumer Credit Code
- ◆ Look Before you Lease
- ◆ Mortgage Loans
- ◆ Repossession
- ◆ Reverse Mortgage Loans
- ◆ Rule of 78s – What is it?
- ◆ Scoring for Credit
- ◆ Shopping for Credit
- ◆ Using Credit Cards
- ◆ Variable Rate Credit
- ◆ What is a Budget?
- ◆ What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

HOW TO FINANCE A USED CAR



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880



OPPORTUNITY. . . .

The Equal Credit Opportunity Act requires that all credit applicants be considered on the basis of their actual qualifications for credit and not be turned away because of age, gender, marital status, race, color, religion, national origin, because they receive public income such as welfare or Social Security, or because they exercise their rights under Federal credit laws such as filing a billing error notice with a creditor. A creditor may not use any of those grounds to discourage you from applying for credit; refuse you credit if you qualify; or lend you money on terms different from those granted another person with similar income, expenses, credit history, and collateral. The Act also provides that an individual may choose to rely on the credit history of a spouse or former spouse if it can be shown that the individual helped to build up that history.

QUALIFYING. . . .

Creditors determine whether or not you're a good credit risk by evaluating:

Your ability to repay, as indicated by how much of your income is left over after you pay your basic expenses every month. Creditors ask for employment information: your occupation, how long you've worked, and how much you earn. They want to know your expenses, how many dependents you have, whether you pay alimony or child support, and the amount of your other obligations.

Your assets, such as a house, bank account, or insurance policy; anything that would serve as security for the creditor if you couldn't meet your payment. Creditors want to know what you may have that could be used to back up or secure your loan and what sources you have for repaying debts other than income.

Your credit history, showing what debts you've had before and how you've managed them. They look at how much you owe, how often you borrow, whether you pay bills on time, and whether you live within your means. They also look for signs of stability: how long you've lived at your present address, whether you own or rent, and length of your present employment.

Your attitude is important, too, because the creditor has to decide whether you're the kind of individual who will act responsibly in using credit. Appearance and behavior have been known to influence a creditor's decision.

BEGINNING. . . .

You may qualify in all respects except for a credit history. Building a credit history takes time and patience. This problem affects young people just beginning careers as well as older people who have never used credit. You may have to start in a small way and build up slowly. Here are some suggestions:

- ◆ Establish a savings and/or checking account. Creditors look on them as evidence that you're able to handle money.
- ◆ Borrow against the security of your savings account at the bank. The interest you pay on the "passbook" loan will be partly offset by the interest your account keeps on earning, so the loan will cost you less than a regular small loan would.
- ◆ Buy something on time at a major store or open a local department store charge account and pay your bills promptly. This is a stepping stone to other kinds of credit.
- ◆ Apply for a gasoline credit card.
- ◆ If you can't get credit on your own, you might ask a relative or a friend who already has a good credit standing to cosign your loan application and share your liability. Once you have repaid the debt, try again to get credit on your own.
- ◆ If you're new in town, write for a summary of any credit record kept by a credit bureau in your former town. (Ask the bank or department store in your old hometown for the name of the agency it reports to.)
- ◆ Before applying for credit, ask whether the creditor reports credit history information to credit bureaus serving your area. Most creditors do, but some do not. If possible, you should try to get credit that will be reported. This builds your credit history.
- ◆ If you believe you're creditworthy, keep trying to establish your credit. Don't be discouraged. Shop around. Persistence has a way of paying off.

BENEFITS. . . WARNING. . . .

Credit is a good thing when used wisely. It lets you buy necessities when you're short of cash and luxuries when you want them. Without credit you might have to put off buying what would be useful or desirable.

But, like other good things, credit can be misused. Borrowing can be addictive and may be dangerous to your financial health.

REMEMBER. . . .

- ◆ Credit isn't usually free. It's paid for by interest charges that vary with the type of creditor, kind of credit, and the time period involved.
- ◆ Credit isn't more money. It's a convenience that lets you enjoy certain benefits now that you'll have to pay for later on.
- ◆ It's important to keep your payments up to date. If you run into a problem because of unforeseen difficulties, discuss it with your creditors.
- ◆ It's important to keep track of how much you owe overall, so that when you do get your credit established, you won't take on more debt than you can handle.
- ◆ Be wary of ads that promise you "instant credit" or "a major credit card regardless of your lack of credit history or past credit record." If asked for money up-front to get you a loan, be aware, it may be a scam and you'll never see your money again and still won't have a loan.

The people who get the most out of credit understand that:

Credit isn't a right to be expected. It's a privilege to be protected.

BORROWING BAROMETERS. . . .

How much debt you can handle depends on your family situation, assets, income, expenses, employment status, age, health, and a lot more. If your monthly payments are more than what's left over from your weekly paycheck after basic expenses, you may be headed for trouble.

IF YOU'RE TURNED DOWN. . . .

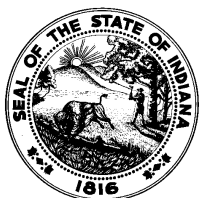
If you are rejected for credit, find out why. There may be reasons other than lack of credit history. Your income may not meet the creditor's minimum requirement or you may not have worked at your current job long enough. Time may resolve such problems. You could wait for a salary increase and then reapply, or simply apply to a different creditor. However, it is best to wait at least 6 months before making each new application. Credit bureaus record each inquiry about you. Some creditors may deny your application if they think you're trying to open too many new accounts too quickly.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit Reporting and Scams
Debt Collection Problems?
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
How to Cut the Costs of Credit
Identity Theft
Look Before you Lease
Mortgage Loans
Older Consumers
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Secured Credit Card Scams
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on
the cover for a copy of any of the brochures listed
or for further consumer credit information.



Applying for Credit



DEPARTMENT OF FINANCIAL INSTITUTIONS

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FAST FACTS

- ◆ Read the ad carefully when considering an advertised special.
- ◆ Call or visit the dealer to find out about all the terms and conditions of the offer.
- ◆ Ask if the financing requires a larger-than-usual down payment.
- ◆ Find out if there are limits on the length of the loan.
- ◆ Ask if a low rate applies to all cars. Ask if the offer applies only to certain models.
- ◆ Read your invoice and the installment contract carefully.

READING BETWEEN THE LINES

Many new car dealers advertise unusually low interest rates and other special promotions. Ads promising high trade-in allowances and free or low-cost options may help you shop, but finding the best deal requires careful comparisons.

Many factors determine whether a special offer provides genuine savings. The interest rate, for example, is only part of the car dealer's financing package. Terms like the size of the downpayment also affect the total financing cost.

QUESTIONS ABOUT LOW INTEREST LOANS

A call or visit to a dealer should help clarify details about low interest loans. Consider asking these questions:

Will I be charged a higher price for the car to qualify for the low-rate financing?

Would the price be lower if I paid cash, or supplied my own financing from my bank or credit union?

Does the financing require a larger-than-usual downpayment? Perhaps 25 or 30 percent?

Are there limits on the length of the loan? Will I be required to repay the loan in a condensed period of time, say 24 or 36 months?

Is there a significant balloon payment —possibly several thousand dollars — due at the end of the loan?

Do I have to buy special or extra merchandise or services such as rust-proofing, an extended warranty, or a service contract to qualify for a low-interest loan?

Is the financing available for a limited time only? Some merchants limit special deals to a few days or require that you take delivery by a certain date.

Does the low rate apply to all cars in stock or only to certain models?

Will I be required to give the dealer the manufacturer's rebate to qualify for financing?

QUESTIONS ABOUT OTHER PROMOTIONS

Other special promotions include high trade-in allowances and free or low-cost options. Some dealers promise to sell the car for a stated amount over the dealer's invoice. Questions like these can help you determine whether special promotions offer genuine value.

Does the advertised trade-in allowance apply to all cars, regardless of their condition? Are there any deductions for high mileage, dents, or rust?

Does the larger trade-in allowance make the cost of the new car higher than it would be without the trade-in? You might be giving back the big trade-in allowance by paying more for the new car.

Is the dealer who offers a high trade-in allowance and free or low-cost options giving you a better price on the car than another dealer who doesn't offer promotions? Does the "dealer's invoice" reflect the actual amount that the dealer pays the manufacturer? You can consult consumer or automotive publications for information about what the dealer pays.

Does the "dealer's invoice" include the cost of options, such as rustproofing or waterproofing, that already

have been added to the car? Is one dealer charging more for these options than others?

Does the dealer have cars in stock that have no expensive options? If not, will the dealer order one for you?

Are the special offers available if you order a car instead of buying one off the lot?

Can you take advantage of all special offers simultaneously?

REMEMBER. . .

You're not limited to the financing options offered by a particular dealer. Before you commit to a deal, check to see what type of loan you can arrange with your bank or credit union.

Once you decide which dealer offers the car and financing you want, read the invoice and the installment contract carefully. Check to see that all the terms of the contract reflect the agreement you made with the dealer. If they don't, get a written explanation before you sign. Careful shopping will help you decide what car, options, and financing are best for you.

For More Information

If you have questions or complaints about car ad offers, contact: Consumer Response Center, Federal Trade Commission, Washington, D.C. 20580, 202-326-2222; TDD: 202-326-2502.

While the FTC doesn't resolve individual disputes, complaints about car ads help the FTC in its law enforcement efforts.



The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

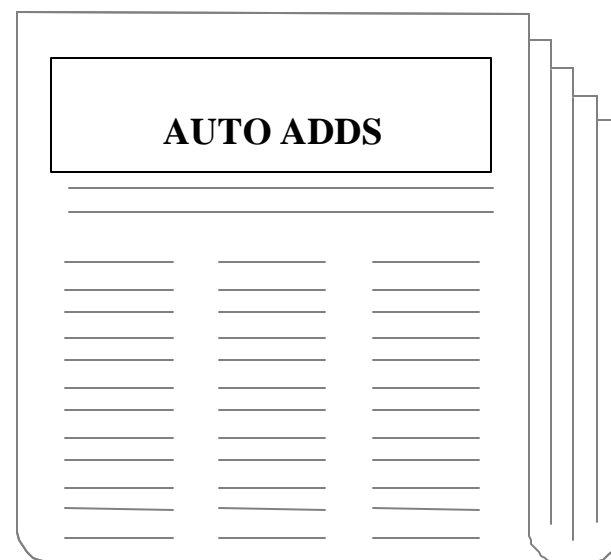
- ◆ Answers to Credit Problems
- ◆ Applying for Credit
- ◆ At Home Shopping Rights
- ◆ Bankruptcy Facts
- ◆ Buried in Debt
- ◆ Car Financing Scams
- ◆ Charge Card Fraud
- ◆ Choosing A Credit Card
- ◆ Co-Signing
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- ◆ Credit and Older Consumers
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- ◆ Reverse Mortgage Loans
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- ◆ Scoring for Credit
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- ◆ Using Credit Cards
- ◆ Variable Rate Credit
- ◆ What is a Budget?
- ◆ What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.



AUTO ADS

Low Interest Loans and Other Offers



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204
317-232-3955
1-800-382-4880



FAST FACTS

- ◆ Some auto dealers claim that you can save money by financing a car rather than paying cash.
- ◆ You may be shown a computer printout that compares financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate.
- ◆ The comparison leaves out a crucial point when you pay cash, you have no monthly payments.
- ◆ Paying interest on a loan always costs more unless you can invest your cash at an interest rate higher than the loan rate.
- ◆ There may be good reasons to finance rather than pay cash, saving money usually isn't one of them.

When buying a car, don't be misled by cost comparisons between financing and paying cash. Many car dealers now use fancy computer printouts to show that financing a car is a better deal than paying cash for it.

Beware.... The numbers may look good, but the bottom line isn't. Although there may be good reasons to finance a car or other expensive items, it's not usually because it saves money.



Be skeptical, then, if an auto dealer claims that financing costs you less than paying cash.

Information telling the whole story may be missing.

HOW MUCH WILL IT COST?

The Federal Trade Commission (FTC) has taken action against a company that distributed computer software used to misrepresent the "savings" of financing versus paying cash for a car. Many auto dealerships across the country may be using similar software.

The computerized cost comparison seems to "prove" you can save money by financing at one rate and investing the cash not spent in a certificate of deposit (CD) at a lower rate.

But can you really come out ahead by borrowing at one rate and investing at a lower rate? **No!** This comparison leaves out a crucial point.

When you pay cash, you have no monthly payments to make. If each month you invest an amount equal to the car payment, the total you accumulate will be more than the value of the CD described above.

In the end, paying interest on a loan always costs you more unless you can invest your cash at an interest rate higher than the loan rate.

WHY FINANCE YOUR CAR OR OTHER PURCHASES?

You may, however, find it advantageous to finance your car. Many car buyers prefer

taking out loans to paying cash for any of the following reasons.

- ◆ You may need your cash for other purposes, such as paying for other products or services, maintaining a better cash flow, or building a "cash cushion" for such things as emergencies or college tuition.
- ◆ You may be able to buy a more expensive car by using financing.
- ◆ Under some circumstances, if you finance a car that develops serious problems, you may not have to continue making payments.
- ◆ Some people would rather have to make monthly payments than use their own money because they would be lax in paying themselves back.

Be aware, however, that car salesmen may be earning commissions when they convince you to finance a car through their dealership.

When a dealer assigns a contract to a bank or finance company, that creditor often gives the dealer a portion of the finance charge called a "dealer reserve." You may be able to get a lower interest rate if you secure your own financing through your local bank or credit union.

THINK CAREFULLY ABOUT ANY CLAIMS THAT FINANCING A CAR CAN SAVE YOU MONEY.



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CAR FINANCING SCAMS



DEPARTMENT OF FINANCIAL INSTITUTIONS

Consumer Credit Division
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317-232-3955
1-800-382-4880



FAST FACTS

- * If you cosign and the borrower misses a payment, the lender can collect from you immediately.
- * You are being asked to guarantee someone else's debt when you cosign a loan.
- * If you are considering cosigning, be sure you can afford to pay the loan.
- * Your liability for the loan may keep you from getting other credit you may want.
- * Before you pledge property, such as a car, to secure the loan, make sure you understand the consequences. If the borrower defaults, you could lose your property.

Cosigner's Notice

What would you do if a friend or relative asked you to cosign a loan? Before you give your answer, make sure you understand what cosigning involves. Under a Federal Trade Commission rule, creditors are required to give you a notice to help explain your obligations. The cosigner's notice says:

"You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

"You may have to pay up to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

"The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing

your wages, etc. If this debt is ever in default, that fact may become a part of your credit record."

- ◆ This notice is not the contract that makes you liable for the debt.

COSIGNERS OFTEN PAY

Some studies of certain types of lenders show that for cosigned loans that go into default, as many as three out of four cosigners are asked to repay the loan. That statistic should not surprise you. When you are asked to cosign, you are being asked to take a risk that a professional lender will not take. The lender would not require a cosigner if the borrower met the lender's criteria for making a loan.

In most states, if you do cosign and your friend or relative misses a payment, the lender can collect from you immediately without pursuing the borrower first. And the amount you owe may be increased — by late charges or by attorneys' fees — if the lender decides to sue to collect. If the lender wins the case, he or she may be able to take your wages and property.

There may be times when you decide to cosign despite the risk. Perhaps your son or daughter needs a first loan or a close friend needs help.

Here are a few things to consider before you cosign:

- * Be sure you can afford to pay the loan. If you are asked to pay and cannot, you could be sued or your credit rating could be damaged.
- * Before you cosign a loan, consider that even if you are not asked to repay the debt, your liability for this loan may keep you from getting other credit you may want.
- * Before you pledge property, such as your auto or furniture, to secure the loan, make sure you understand the consequences. If

the borrower defaults, you could lose these possessions.

- * You may want to ask the lender to calculate the specific amount of money you might owe. The lender does not have to do this, but some will if asked. You also may be able to negotiate the specific terms of your obligation. For example, you might want to have your liability limited to paying the principal balance on the loan, but not late charges, court costs, or attorneys' fees. In this case, ask the lender to include a statement in the contract like this: "The cosigner will be responsible only for the principal balance on this loan at the time of default."
- * You may want to ask the lender to agree, in writing, to notify you if the borrower misses a payment. In this way, you will have time to deal with the problem or make back payments without having to repay the whole amount immediately.
- * Make sure you get copies of all important papers, such as the loan contract, the Truth-in-Lending Disclosure Statement, and any warranties if you are cosigning for a purchase. You may need these if there is a dispute between the borrower and the seller. Because the lender is not required to give you these papers, you may have to get copies from the borrower.

The Federal Trade Commission enforces a number of federal laws involving consumer credit including the Consumer Credit Practices Rule. Their Web Site is <http://www.ftc.gov>.

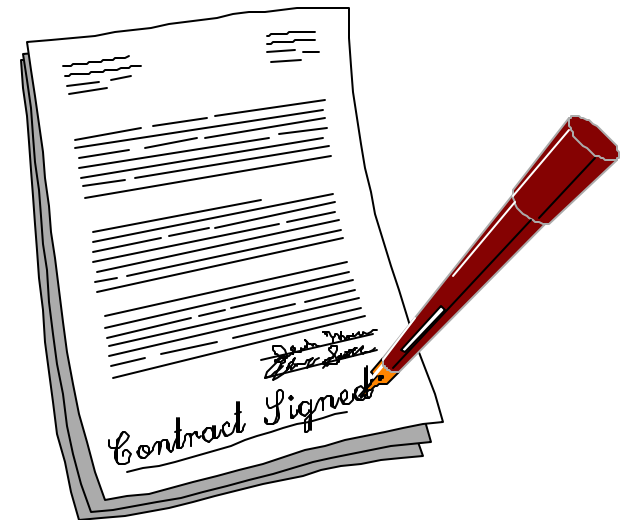


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CO-SIGNING A LOAN



DEPARTMENT OF FINANCIAL INSTITUTIONS

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ADVANTAGES AND DISADVANTAGES OF USED CARS

Nearly two out of every three cars sold are used cars. Many consumers, especially teenagers, cannot afford to buy a new car when the average price is approximately \$18,000. The cost of insurance is much higher for a new car, increasing the demand for used cars. The supply of used cars has increased due to the number of two and three-year-old lease cars available.

There are real advantages to buying a used car. The buyer of a used car avoids some of the depreciation costs, which can be up to 40% of its value in the first two years. Sometimes, buyers can afford more options and luxury items when they purchase a used car. Many consumers feel that they can arrange a better deal with less hassle if they buy directly from the owner of the car.

Buying a used car can have disadvantages as well. One important disadvantage is that often the most maintenance-free time of the car's life is during the first two years. Some used cars have serious hidden defects with limited or no warranty coverage. It is sometimes difficult to determine whether the car was maintained properly by its previous owner. The used car may not have all the desirable safety or technical features of a new car. The selection of models, equipment, and colors may be limited.

WHERE TO BUY A USED CAR

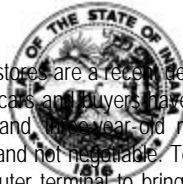
Buying a used car is an important financial decision. Generally, the price of a used car is determined by who is selling it. So, it is smart to gather information before you buy, such as knowing what you can afford, then carefully exploring financial arrangements as you negotiate the best deal.

Dealerships account for approximately 50% of the used cars sold annually. Dealers usually have a good supply of late model used cars, so they offer a selection in top condition. These vehicles often carry the balance of the manufacturer's warranty and some dealers offer their own warranties. In addition, dealers have service capacities, provide financing services and take care of vehicle registration and license forms.

The Federal Trade Commission's Used Car Rule requires dealers to display prominently and conspicuously a warranty notice called a Buyer's Guide sticker on all used cars (but not trucks). The Buyer's Guide must state whether the vehicle has a warranty or is being sold "as is."

◆

Used Car Superstores are a recent development. They usually have a large stock of cars and buyers have access to computer-assisted selection. Two and three-year-old models predominate and car prices are fixed and not negotiable. To begin the selection process, you use a computer terminal to bring up vehicles by make, model and price. The computer will print a picture of any car and list its equipment, price, and lot location. The vehicles carry seller



warranties which vary in quality from generous to average and many carry the balance of the manufacturer's original warranty. Drawbacks of Superstores are that the salespeople may be relatively uninformed. They cannot provide information about previous car owners and the prices are generally higher.

Independent Lots offer a variety of cars, from excellent and expensive to well-worn clunkers. Usually, car lots have no service facilities, but they may work with a local garage. If they offer warranties, the local mechanic will perform warranty repairs. In order to learn the reputation of a used car lot or dealership, buyers can phone local consumer protection offices or the Better Business Bureau to inquire about complaints against the business. Independent lots often offer financing and there can be strong pressure to finance the car through them. Their finance rates are usually higher than at banks or credit unions.

Rental Agencies offer rental cars for sale to the public after a year or two of use. These late model cars often carry the balance of the manufacturer's warranty and service records are generally available. To buy from a rental agency, buyers have to arrange their own financing and no trade-ins are accepted.

Private Sales are often good buys, but be cautious when buying from an individual. When possible, buyers should deal with a seller they know and trust. Sellers are often people who have not been able to get the price they want for their car as a trade-in. There is little pressure to buy and repair records may be available. However, these used vehicles are sold "as is" with no warranty. Late model cars may still have a manufacturer's warranty that you can purchase for a transfer fee. The sale may be risky because stolen cars with phony titles can be sold and so can cars about to be repossessed. Also, there can be concealed damage or major repair problems.

BEFORE YOU NEGOTIATE

Visit the dealership, superstore, car lot or other source. When buying from a private individual, adapt the following steps to that type of sale. Take a notepad and calculator. Be prepared to spend time.

Meet the salesperson or seller and write down his or her name. Look for the models you are most interested in. If asked how much you would like to spend, say, "it depends on the car." Do not be afraid to say that you are looking for cars at other places.

Find one or two models and inspect them. On your notepad, identify the car, the year, the price, options, trim line, mileage, and vehicle identification number (VIN). Request the name and phone number of the previous owner from the title. Ask to see the title, then match the VIN with that on the car and note the name and phone number of the previous owner.

- ◆ Test drive one or two vehicles. If you are interested in a particular car, ask the salesperson if you can take the car to your mechanic for an evaluation. Also, examine the cars

warranty. Check the performance, safety and service records for the car. You can obtain price information from the Consumer Reports Used Car Price Service for \$1.75 per minute, phone 1-900-446-0500. On the Internet, you can obtain price information from Edmund's New and Used Car Prices and Reviews, at <http://www.edmund.com> and from the Kelley Blue Book <http://www.kbb.com>. Also the NADA Official Used Car Guide gives information about the prices of used cars.

These resources are available at your local public library. You can check if a used car has had a safety recall by calling the National Highway Traffic Safety Administration's Auto Safety Hotline at (800) 424-9393 or on the Internet at <http://www.dot.gov/affairs/nhtsain.htm>.

Leave the premises. At home, phone the previous owner. Ask for the mileage reading at the time of trade-in. It should be consistent with the present reading. Contact your financing sources, request price information about specific cars and confirm loan availability. Also, get an estimate of your insurance costs from at least two insurance sellers.

Review your information and estimate the wholesale and retail price for the car you wish to purchase, based on the following information:

- ◆ price information from a current used-car price guide or from financing sources
- ◆ the car's condition, checked by you
- ◆ prices of similar vehicles, from advertisements
- ◆ reasonable seller markup to cover overhead and profit

Return to the seller and make arrangements to take the car to your mechanic. You may be asked to leave your car at the lot as security. Once you receive the mechanic's dollar estimate of needed repairs, either subtract that amount from your maximum offer or use it as a negotiating tool.

The Negotiating Process

Negotiation is the process of discussing the price and terms of a used car, eventually arriving at an agreement between the buyer and seller. Any well-informed buyer can negotiate a fair deal using the following steps.

Make an offer. It should be 15% to 20% below the maximum amount you would pay so that there is room to bargain. You may be asked about a trade-in or be urged to sign up for dealer financing. To both questions, say you are undecided. Your goal at this point is to get agreement on the car price.

Your first offer will likely be rejected. Your second offer should not split the difference between your first offer and the seller's counter offer. It should split the difference between your first offer and the maximum amount you will spend. You can use the cost estimates of repairs supplied by your mechanic to help negotiations.

Making an offer at a used car Superstore with no-haggle prices requires a different strategy. If you cannot negotiate on price, consider other aspects of the sale, such as more attractive financing, a higher trade-in price, or a longer/more inclusive warranty.

If you reach a price standoff, change the situation by taking another look at the car. Using the Buyers Inspection Checklist, you may notice problems you overlooked previously. At this point, do not agree to a deposit since you have no contract, only your offer. A deposit may give the seller the leisure to negotiate a higher price.

Some buyers feel at ease making several offers and counter-offers, simultaneously negotiating for better warranty coverage or additional equipment. They may give up \$50 to \$100, but they expect something in return. If that is the case, be sure to write down any promises made by the salesperson.

Your last offer should be close to the maximum amount you would pay for the car. Be ready to justify your offer as reasonable and fair by showing how you arrived at it. Make it clear that this offer is final. If the dealership rejects it, be prepared to walk away. The salesperson may catch you in the parking lot or phone you the next day.

If the salesperson accepts an early offer but then says that the sales manager will not approve the deal, it is likely that you are being low-balled. That is, a low offer is initially accepted by the salesperson who knows it will be rejected so that a higher price can be reached in further negotiations. If that happens, leave, because low-balling is a form of dishonesty.

If the seller accepts your offer, you have a deal. The salesperson will then prepare a Buyers Order or Purchase Agreement to be signed by you. Insist on a readable document, not a first draft. A preprinted form or computer-generated form may automatically charge you for things you have already refused, so examine the contract before you sign.

- ◆ Check the purchase agreement for arithmetic errors, mistaken prices, extra charges, omissions, and blank spaces.
- ◆ Be sure that the information on the purchase agreement is consistent with the information in your notes.
- ◆ Get all verbal promises in writing.

There is no three-day cooling off period for auto contracts so do not sign any automobile contract

without understanding it. Your signature is legally binding.

SUMMARY OF TIPS

- ◆ Check out the car's repair record, maintenance costs, and safety and mileage ratings in consumer magazines or online.
- ◆ Look up the "blue book" value and be prepared to negotiate the price.
- ◆ Buying from a dealer? Look for the Buyers Guide. It's required by a federal regulation called the Used Car Rule.
- ◆ Make sure all oral promises are written into the Buyers Guide.
- ◆ You have the right to see a copy of the dealer's warranty before you buy.
- ◆ Warranties are included in the price of the product; service contracts cost extra and are sold separately.
- ◆ Ask for the car's maintenance record from the owner, dealer, or repair shop.
- ◆ Test drive the car on hills, highways, and in stop-and-go traffic.
- ◆ Have the car inspected by a mechanic you hire.
- ◆ Check out the dealer with local consumer protection officials.
- ◆ If you buy a car "as is," you'll have to pay for anything that goes wrong after the sale.

The Used Car Rule generally doesn't apply to private sales.

If you decide to buy a used vehicle, take time to comparison shop for both the car and its financing plan. Because you do not always know how the used car was driven or maintained, be especially concerned with its condition. Deciding where to buy and where to finance the car is a challenge. See How To Finance A Used Car, for information on the sources for financing used cars.

Buyers should not pay the asking price for a used car unless they are dealing with a Superstore. Sellers of used cars have set a price that allows room for bargaining. However, buyers do not always think about having all verbal promises and guarantees in writing. Unless promises are in writing and signed by the seller, they are legally unenforceable. So if the seller will not put everything in writing, your best option is to shop for a better deal elsewhere.



HOW TO BUY A USED CAR



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